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STATE OF MONTANA

OFFICE OF COMMISSIONER OF HIGHER EDUCATION
and
BOARD OF REGENTS OF HIGHER EDUCATION

Report on Examination of Financial Statements

Fiscal Years Ended June 30, 1975 and 1976

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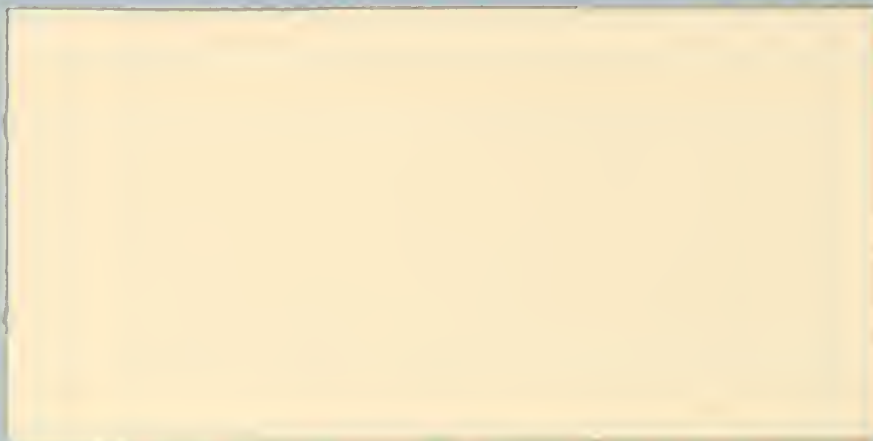
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Report on Examination of Financial Statements

Fiscal Years Ended June 30, 1975 and 1976



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APPOINTIVE AND ADMINISTRATIVE OFFICIALS

BOARD OF REGENTS OF HIGHER EDUCATION

Thomas L. Judge, Governor*

Georgia Rice, Superintendent of Public Instruction*

Lawrence K. Pettit, Ph.D., Commissioner of Higher Education, Secretary*

Sid Thomas, Student Representative	Bozeman	1978
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Mary Pace, Vice Chairman	Bozeman	1978
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Ted James, Chairman	Great Falls	1979
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Jeffrey Morrison	Helena	1980
------------------	--------	------

John Peterson	Butte	1982
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Lewy Evans, Jr.	Billings	1983
-----------------	----------	------

Lola Hansen	Sidney	1984
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*Ex officio members

ADMINISTRATION

Lawrence K. Pettit, Ph.D.

Commissioner

John H. Noble, Jr.

Deputy Commissioner
for Management and
Fiscal Affairs

SUMMARY OF RECOMMENDATIONS

As a separate section in the front of each audit report we include a listing of all recommendations together with a notation as to whether the agency concurs or does not concur with each recommendation. This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply thereto and also as a ready reference to the supporting comments. The full replies of the Commissioner of Higher Education and the Department of Administration are included in the back of this report.

	<u>Page</u>
That the Department of Administration review the need for legislation to allow the Facilities Planning Bureau, Architecture and Engineering Division, to adopt state-wide standards for allocating leased office space.	5
<u>Department of Administration Reply:</u> Concur. See page 26.	
Document all employee leave charges on the Department of Administration's request for leave of absence form.	7
<u>Agency Reply:</u> Concur. See page 27.	
Record sick leave and compensatory time charges to the nearest full hour when posting transactions to employees' leave records.	7
<u>Agency Reply:</u> Concur. See page 27.	
Request the Department of Administration's assistance in transferring unidentified federal and private revenue grant clearance fund moneys to the appropriate fund.	7
<u>Agency Reply:</u> Concur. See page 27.	
Deposit the Peter Potter Loan Fund moneys in the Trust and Legacy Fund within the state treasury.	9
<u>Agency Reply:</u> Concur. See page 27.	

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59601
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MORRIS L. BRUSETT
LEGISLATIVE AUDITOR

DEPUTY LEGISLATIVE AUDITORS:
JOSEPH J. CALNAN
ADMINISTRATION AND
PROGRAM AUDITS

ELLEN FEAVER
FINANCIAL COMPLIANCE AND
CONTRACTED AUDITS

STAFF LEGAL COUNSEL
JOHN W. NORTHEY

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the balance sheets of the Office of the Commissioner of Higher Education and the Board of Regents as of June 30, 1976, and the related statements of operations listed in the table of contents of this report for the two years then ended. In addition, we examined the statement of assets of the Peter Potter Loan Fund as of December 31, 1976, and the related statement of cash transactions for the two years then ended. The Board of Regents act as the trustees of the Peter Potter Loan Fund. Our examination was made in accordance with generally accepted auditing standards, and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of the Office of the Commissioner of Higher Education and the Board of Regents as of June 30, 1976, and the Peter Potter Loan Fund as of December 31, 1976, and the results of these entities' operations for the two years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Respectfully submitted,

Morris L. Brusett

Morris L. Brusett, CPA
Legislative Auditor

September 30, 1977

COMMENTS

GENERAL

The adoption of the Montana Constitution in 1972 resulted in considerable changes in the governance of the Montana university system. The Board of Regents now has constitutional authority to supervise, manage, coordinate and control the state's institutions of higher education. The Montana university system includes the University of Montana, Montana State University, Montana College of Mineral Science and Technology, Eastern Montana College, Northern Montana College, Western Montana College, the Agricultural Experiment Station, the Cooperative Extension Service, and the Montana Bureau of Mines and Geology. The Board of Regents is also vested with the general supervision of community colleges. Through its executive officer, the Commissioner of Higher Education, the board exercises those functions prescribed by the constitution. The Commissioner's responsibilities include academic planning and curriculum review, budgetary planning and control, provision of legal services to campuses, facilities planning, establishment of labor negotiation policies and procedures, and coordination of community colleges in accordance with state law and board policies.

The Board of Regents consists of seven members appointed by the Governor and confirmed by the Senate. The Governor, the Superintendent of Public Instruction and the Commissioner of Higher Education are ex officio non-voting members of the board.

LEASE OF NEW OFFICE FACILITIES

After the implementation of the Montana Constitution in July 1973 the Commissioner of Higher Education and Board of Regents hired additional

staff to meet the responsibilities imposed on them by the new Constitution. The increased staff required additional office space. During fiscal years 1973-74 and 1974-75, the Commissioner of Higher Education employed ten full-time employees, while during fiscal year 1975-76 the staff size increased to 19 full-time employees. The Commissioner of Higher Education anticipates employing 25 full-time employees during fiscal year 1977-78.

The Commissioner's original plan to obtain additional office space with the Department of Institutions was not met when the department agreed to occupy the entire old Deaconess Home in Helena. Therefore, the Commissioner of Higher Education, working with the Department of Administration, began to look for leased space. The Department of Administration sought proposals from prospective developers, and in September 1975 they received three proposals. In May 1976 a nine-year lease agreement was approved by the Department of Administration as required by Section 82-3308, R.C.M. 1947. Originally, the department approved only a five-year lease; however, the developers were unable to obtain adequate bank financing unless a nine-year lease was signed. The new office space was built to the Commissioner's specifications after the agreement was signed.

The lease calls for a monthly payment of \$5,032.50 plus utilities, (\$60,390 yearly) which amounts to \$6.10 per square foot per year for a total of 9,900 square feet. The rate per square foot paid by the Commissioner of Higher Education is comparable to other new leased office space in the downtown Helena area. In December 1976 throughout Helena, the state leased approximately 330,000 square feet of building space at an annual rental of approximately \$1,150,000. The average rate

per square foot for this space was approximately \$3.50. The rate per square foot varies from a low of \$1 to a high of \$6.10.

The principal responsibility for managing state building space lies with the Department of Administration. The Facilities Planning Bureau of the Architecture and Engineering Division presently administers the long-range building program for the state. Section 82-3315, R.C.M. 1947, describes the authority and duties of the Department of Administration and other state agencies in preparing and presenting the long-range building program to the legislature. However, state leases do not receive the same degree of planning as the long-range building program. The Department of Administration encourages agencies to voluntarily consult with the Facilities Planning Bureau on space requirements and/or layouts for proposed leased space, but there is no absolute requirement for state agencies to follow the Facilities Planning Bureau's recommendations.

The Commissioner of Higher Education worked with the Department of Administration in planning its new office. The Facilities Planning Bureau's proposal for allocating space to the Commissioner of Higher Education proposed approximately 7,200 square feet compared to approximately 9,900 square feet requested by the Commissioner. Higher education officials stated that they used university system standards in developing their needed space requirements. Using these standards, estimated space requirements for the Commissioner's office totaled 8,300 square feet. In comparing the space proposed by the Department of Administration and the space specified by the Commissioner, we noted a lack of statewide standards within state government for allocating leased office space.

The comparison below illustrates the differences in standards for certain individual offices proposed by the Department of Administration and the university system for the Office of the Commissioner of Higher Education.

	Department of Administration <u>Proposal</u>	University <u>Standards</u>	Actual <u>Allocation</u>
Commissioner	250*	320	378
Administrative Assistant	175	160	250
Deputy Commissioner for Academic Affairs	160	250	345
Deputy for Finance	160	250	255
Assistant Commissioner for Legal Affairs	160	250	250
Mail Room	0	0	290
Copy Machine	0	0	53
Conference Room	850	900	1,580

*square feet

The building presently occupied by the Commissioner of Higher Education has two floors. The first floor is leased to the Commissioner and the Board of Regents who anticipate employing 25 full-time employees during fiscal year 1977-78. Various divisions within the Department of Labor and Industry, which now includes the former Governor's Employment and Training Council, lease the second floor. This leased facility has 9,900 square feet--the same as the Office of the Commissioner of Higher Education. The Department of Labor and Industry will house between 55 and 60 full-time employees, twice as many as employed by the Office of the Commissioner of Higher Education.

The developer has designed offices to the Department of Labor and Industry's specifications. Present plans call for the Commissioner of Labor and Industry to have a 180 square foot office, while division administrators and bureau chiefs will be allocated 165 and 126 square feet, respectively. The Facilities Planning Bureau did not play an active role in establishing proposed office space for the department.

While we recognize that the needs of the Commissioner of Higher Education and the Department of Labor and Industry differ in certain respects, we believe the lack of statewide standards for allocating leased office space within state government could result in a spiraling effect, as some agencies try to use the higher standards for space achieved by other agencies. One method of preventing this is to require all state agencies to furnish allocation specifications for leased office space to the Facilities Planning Bureau before obtaining final approval of the lease agreement from the director, Department of Administration.

RECOMMENDATION

We recommend that the Department of Administration review the need for legislation to allow the Facilities Planning Bureau, Architecture and Engineering Division, to adopt statewide standards for allocating leased office space.

INDIAN TEACHER TRAINING PROGRAM

House Bill 271, Session Laws of 1975, provided \$480,000 of general fund moneys during fiscal years 1975-76 and 1976-77 to continue a federally funded Indian teacher-training program, for which federal funding expired June 30, 1975. This program, authorized by Chapter 425, Session Laws of 1975, was administered by local school districts on the Rocky Boy, Crow, and Northern Cheyenne Reservations, and by a non-profit corporation for the Landless Indians. These reservations had 48 students who were one year or less away from graduation from teacher-training colleges. The Commissioner of Higher Education administered the funds distributed annually to the two designee school districts and one Indian nonprofit corporation. The Indian Teacher-Training program expired June 30, 1977.

The Indian non-profit corporation and one of the school districts were previously audited by CPA firms; therefore, we chose not to review their records. The school district we visited did not maintain adequate records to support the grant received from the Commissioner of Higher Education. School district officials could not locate claims supporting these funds. They stated that the claims were lost when the school district changed office locations. Because of this, we were unable to perform auditing tests necessary to determine whether all the funds were expended in accordance with the school district's budget approved by the Commissioner of Higher Education.

The Commissioner of Higher Education specified prior to the distribution of funds that proper accounting records be kept for post-audit purposes. Since funding has ceased for this program, we are reporting this matter so that adequate documentation will be assured for future programs.

EMPLOYEE LEAVE

The Office of the Commissioner of Higher Education requires its employees to document leave taken on a monthly time summary form. While this procedure provides after the fact documentation of leave taken, the Montana Administrative Manual requires agencies to provide the standard request for a leave of absence form for their employees. This form allows each employee to receive his supervisor's immediate approval of the absence, which in turn strengthens internal control over employee absences. Also, the standard request for leave of absence form allows officials to distinguish between emergency sick leave and regular sick leave as required by the Montana Administrative Manual.

We found that sick leave and compensatory time charges posted to each employee's leave record are not being recorded to the nearest full hour. The Montana Administrative Manual states that sick leave and compensatory time charges shall be recorded in full hours only.

RECOMMENDATION

We recommend that the Commissioner of Higher Education:

- 1. Document all employee leave charges on the Department of Administration's request for leave of absence form.*
- 2. Record sick leave and compensatory time charges to the nearest full hour when posting transactions to employees' leave records.*

CASH IN TREASURY

The Commissioner of Higher Education's balance sheet at June 30, 1976, reflects \$1,000 of cash in the state treasury for the federal and private revenue grant clearance account. Agency officials stated there have been no transactions affecting this account for several years, and the source of these funds is unknown.

Since this account balance continues to be misleading to financial statement readers, the Commissioner of Higher Education should seek assistance from the Department of Administration in transferring the moneys to the appropriate fund.

RECOMMENDATION

We recommend that the Commissioner of Higher Education request the Department of Administration's assistance in transferring unidentified federal and private revenue grant clearance fund moneys to the appropriate fund.

PETER POTTER LOAN FUND

In our audit report relating to the Office of the Commissioner of Higher Education for fiscal year ended June 30, 1974, we recommended that the Board of Regents deposit the Peter Potter Loan Fund moneys in the Trust and Legacy Fund within the state treasury, or seek legislation allowing the maintenance of the loan fund outside the state treasury.

As stated in that report:

"The Montana university system was willed the assets to establish a college loan fund to be used for loans to Butte high school graduates who attended one of the Montana university units. As trustee, the Board of Regents selected the First Metals Bank of Butte to administer the loan moneys."

The board recently selected a Helena bank to administer the loan moneys. Therefore, the fund's assets are still being held outside the state treasury.

The cost of administering the loan fund is \$1,800 per calendar year. Past bank service charges for administering the fund have amounted to \$710, \$1,130, and \$1,100 for calendar years 1974, 1975, and 1976, respectively. We question the reasonableness of paying the \$1,800 fee when most of the services pertaining to the securities could be performed by the Department of Administration, Investment Division, if the fund's assets were deposited within the state treasury. We believe the Commissioner's office could process loan repayments as well as loan disbursements without an increase in staff--a service now performed by the bank.

As stated in our previous audit report, one effect of the Peter Potter Loan Fund assets being held outside the state treasury is that collection services of the Department of Revenue cannot be utilized for bad debt collections. Department of Revenue officials require bad debts

to be recorded on the Statewide Budgeting and Accounting System before collection services can be performed. This service may be beneficial to the Board of Regents in the future since 43 percent of the student loans are now considered delinquent.

RECOMMENDATION

We recommend that the Commissioner of Higher Education deposit the Peter Potter Loan Fund moneys in the Trust and Legacy Fund within the state treasury.

FINAL COMMENTS

We have reviewed this report with the staff of the Commissioner of Higher Education, and, where applicable, the Director of the Department of Administration. The full texts of their written responses to this report begin on page 26.

We wish to express our appreciation to these officials and their respective staffs for cooperation and assistance during the audit.

FINANCIAL STATEMENTS

COMMISSIONER OF HIGHER EDUCATION

BALANCE SHEET

ALL FUNDS

JUNE 30, 1976

	General Fund	Federal and Private Revenue Fund	Federal and Private Grant Clearance Fund
ASSETS			
Imprest Cash Fund	\$ 35		
Cash in Treasury		\$6,915	\$1,000
Expense Advance to Employees	150		
Appropriation Reserved for Payment			
of Accrued Support Expenditures	107,519		
TOTAL ASSETS	<u>\$107,704</u>	<u>\$6,915</u>	<u>\$1,000</u>
LIABILITIES, RESERVES AND FUND BALANCES			
Accrued Support Expenditures	\$107,519	\$3,171	
Reserve for Expense Advances			
to Employees	150		
Reserve for Imprest Cash Fund	35		
Fund Balances	<u>-0-</u>	<u>3,744</u>	<u>\$1,000</u>
TOTAL LIABILITIES, RESERVES AND FUND BALANCES	<u>\$107,704</u>	<u>\$6,915</u>	<u>\$1,000</u>

COMMISSIONER OF HIGHER EDUCATION

ALL FUNDS

STATEMENT OF REVENUE COMPARED TO REVENUE ESTIMATES

FISCAL YEARS ENDED JUNE 30, 1975 AND 1976

Revenue Category	Federal and Private Revenue Fund		Federal and Private Grant Clearance Fund		Total	
	Estimated	Actual	Estimated	Actual	Estimated	Actual
Federal Grants - Health, Education and Welfare						
Fiscal Year 1974-75	\$60,000	\$40,105	\$ -0-	\$ -0-	\$60,000	\$40,105
Fiscal Year 1975-76	\$49,148	\$34,319	\$ -0-	\$56,463	\$49,148	\$90,782

COMMISSIONER OF HIGHER EDUCATION
STATEMENT OF EXPENDITURES COMPARED WITH APPROPRIATIONS
FISCAL YEARS ENDED JUNE 30, 1975 AND 1976

	Fiscal Year 1974-75				Fiscal Year 1975-76					
	Appropriation	Budget Amendments	Total Available	Expenditures	Unexpended Balance	Appropriation	Budget Amendments	Total Available	Expenditures (Note 5)	Unexpended Balance
GENERAL FUND										
Administration Program										
General Administration	\$ 106,711	\$ 36,217	\$ 142,928	\$ 140,596	\$ 2,332	\$ 131,679	\$ 454,000	\$ 585,679	\$ 572,450	\$ 13,229
Student Assistance Program										
Student Services Administration	36,500	49	36,549	36,204	345	9,070	-0-	9,070	8,886	184
WICHE-Administration						28,000	-0-	28,000	28,000	-0-
WICHE-Program										
Assistance	639,200	(20,285)	618,915	590,942	27,973	597,030	41,500	638,530	635,203	3,327
NDEA	25,000	-0-	25,000	25,000	-0-	30,000	-0-	30,000	30,000	-0-
Rural Dentistry	32,000	-0-	32,000	32,000	-0-	78,000	-0-	78,000	72,000	6,000
Federal Incentive Match										
Community College						57,730	-0-	57,730	56,463	1,267
Assistance										
Flathead Valley Community College	535,000	-0-	535,000	535,000	-0-	631,216	50,000	681,216	681,216	-0-
Dawson Community College	270,000	-0-	270,000	270,000	-0-	318,220	25,000	343,220	343,220	-0-
Miles Community College	267,000	-0-	267,000	267,000	-0-	325,642	25,000	350,642	350,642	-0-
Indian Culture Master Plan	24,000	17	24,017	24,017	-0-					
Totals	\$1,935,411	\$ 15,998	\$1,951,409	\$1,920,759	\$30,650	\$2,206,587	\$595,500	\$2,802,087	\$2,778,080	\$24,007
FEDERAL AND PRIVATE REVENUE FUND										
Administration Program										
General Administration										
Higher Education Facilities	\$ 73,320	\$ 180	\$ 73,500	\$ 39,950	\$33,550	\$ 49,148	\$	\$ 49,148	\$ 34,067	\$ 15,081
Totals	\$ 73,320	\$ 180	\$ 73,500	\$ 39,950	\$33,550	\$ 49,148	\$ -0-	\$ 49,148	\$ 34,067	\$ 15,081

COMMISSIONER OF HIGHER EDUCATION
ALL FUNDS
STATEMENT OF CHANGES IN FUND BALANCES
FISCAL YEARS ENDED JUNE 30, 1975 AND 1976

	<u>General Fund</u>	<u>Federal and Private Revenue Fund</u>	<u>Federal and Private Grant Clearance Fund</u>
Balance July 1, 1974	\$ -0-	\$ 1,681	\$ 1,000
Additions:			
Appropriations and Budget Amendments	1,951,409		
Revenue - Budgeted		40,105	
Prior Year Expenditures Adjustment		1,860	
	<u>1,951,409</u>	<u>43,646</u>	<u>1,000</u>
Deductions:			
Support and Local Assistance Expenditures	1,920,759	39,950	
Reverted Appropriations	30,650		
	<u>1,951,409</u>	<u>39,950</u>	<u>-0-</u>
Balance June 30, 1975	<u>-0-</u>	<u>3,696</u>	<u>1,000</u>
Additions:			
Appropriations and Budget Amendments	2,802,087		
Revenue - Budgeted		34,319	
Revenue - Non-Budgeted			56,463
	<u>2,802,087</u>	<u>38,015</u>	<u>57,463</u>
Deductions:			
Support and Local Assistance Expenditures	2,778,080	34,067	
Non-Budgeted Expenditures			56,463
Prior Year Expenditures Adjustment		204	
Reverted Appropriations	24,007		
	<u>2,802,087</u>	<u>34,271</u>	<u>56,463</u>
Balance June 30, 1976	<u>\$ -0-</u>	<u>\$ 3,744</u>	<u>\$ 1,000</u>

COMMISSIONER OF HIGHER EDUCATION
STATEMENT OF EXPENDITURES BY OBJECT
FISCAL YEARS ENDED JUNE 30, 1975 AND 1976
(NOTE 7)

Expenditure Object	Administration Program Fiscal Year	Student Assistance Program Fiscal Year	Community College Assistance Fiscal Year	Higher Education Facilities Fiscal Year	Indian Culture Master Plan Fiscal Year	Total Expenditures Fiscal Year
	1974-75	1975-76	1974-75	1975-76	1974-75	1975-76
Personal Services						
Salaries	\$ 96,775	\$ 248,692	\$ 6,767	\$ 5,419	\$ 13,504	\$ 141,305
Other Compensation		54			50	54
Employee Benefits (Note 2)	10,226	28,810	843	681	1,691	15,392
Total Personal Services	<u>107,001</u>	<u>277,556</u>	<u>7,610</u>	<u>6,100</u>	<u>15,195</u>	<u>156,747</u>
Operating Expenses						
Contracted Services	9,146	255,581	144	445	3,606	16,198
Supplies and Materials	2,227	3,712	73	33	94	2,755
Communications	3,997	9,612	181	942	766	7,253
Travel	9,368	35,525	196	367	2,515	14,749
Rent (Note 4)	6,787	13,563		1,000	1,500	12,037
Utilities	338	410			85	447
Repairs and Maintenance	231	232			56	287
Other Expenses	<u>1,501</u>	<u>4,925</u>				<u>2,094</u>
Total Operating Expenses	<u>33,595</u>	<u>323,560</u>	<u>594</u>	<u>2,787</u>	<u>8,622</u>	<u>55,820</u>
Equipment		5,401			200	200
Grants						
From State Sources			675,942	821,665		1,747,942
From Federal Sources			<u>675,942</u>	<u>56,463</u>		<u>1,747,942</u>
Total Grants	<u>-0-</u>	<u>-0-</u>	<u>675,942</u>	<u>878,128</u>		<u>2,253,206</u>
TOTAL EXPENDITURES	<u>\$140,596</u>	<u>\$606,517</u>	<u>\$684,146</u>	<u>\$887,015</u>	<u>\$24,017</u>	<u>\$1,960,709</u>
						<u>\$2,868,610</u>

OFFICE OF COMMISSIONER OF HIGHER EDUCATION

STATEMENT OF CHANGES IN EQUIPMENT
TWO FISCAL YEARS ENDED JUNE 30, 1976

Beginning Balance, July 1, 1974 \$16,908

Additions:

Furniture - \$3,064
Typewriters - 3,679
Old Equipment not
included on previous Inventory - 663

Total Additions - 7,406

Deletions:

Wooden Plan File transferred - \$ 188
Typewriters traded in - 1,190

Total Deletions - -\$ 1,378

Ending Balance, June 30, 1976 \$22,936

BOARD OF REGENTS OF HIGHER EDUCATION
BALANCE SHEET
EARMARKED REVENUE FUND
JUNE 30, 1976

ASSETS

Appropriation Reserved for Payment of Accrued Support Expenditures	\$128
TOTAL ASSETS	<u>\$128</u>

LIABILITIES, RESERVES AND FUND BALANCE

Accrued Support Expenditures	\$128
Fund Balance	-0-
TOTAL LIABILITIES, RESERVES AND FUND BALANCE	<u>\$128</u>

BOARD OF REGENTS OF HIGHER EDUCATION
STATEMENT OF EXPENDITURES COMPARED WITH APPROPRIATIONS
FISCAL YEARS ENDED JUNE 30, 1975 AND 1976

	<u>Fiscal Year</u> <u>1974-75</u>	<u>Fiscal Year</u> <u>1975-76</u>
GENERAL FUND		
<u>Indian Teacher Training</u>		
Appropriation		\$ 240,000
Budget Amendments		<u> </u>
Total Available		<u>240,000</u>
Expenditures		<u>240,000</u>
Unexpended Balance		<u>\$ -0-</u>
<u>Regents Discretionary</u>		
Appropriation		\$4,000,000
Budget Amendments (Note 8)		<u>(2,818,234)</u>
Total Available		<u>1,181,766</u>
Expenditures		<u>68,600</u>
Unexpended Balance		<u>\$1,113,166</u>
EARMARKED REVENUE ACCOUNT		
<u>Regents Operations</u>		
Appropriation	\$18,750	\$ 16,353
Budget Amendments	<u>154</u>	<u> </u>
Total Available	<u>18,904</u>	<u>16,353</u>
Expenditures	<u>18,772</u>	<u>16,214</u>
Unexpended Balance	<u>\$ 132</u>	<u>\$ 139</u>

BOARD OF REGENTS OF HIGHER EDUCATION
ALL FUNDS
STATEMENT OF CHANGES IN FUND BALANCES
FISCAL YEARS ENDED JUNE 30, 1975 AND 1976

	<u>General Fund</u>	<u>Earmarked Revenue Account</u>
Balance July 1, 1974	\$ -0-	\$ -0-
Additions:		
Appropriations and Budget		
Amendments	-0-	18,904
	<u>-0-</u>	<u>18,904</u>
Deductions:		
Support Expenditures		18,772
Reverted Appropriation		132
	<u>-0-</u>	<u>18,904</u>
Balance June 30, 1975	<u>-0-</u>	<u>-0-</u>
Additions:		
Appropriations and Budget Amendments	1,421,766	16,353
	<u>1,421,766</u>	<u>16,353</u>
Deductions:		
Support Expenditures	308,600	16,214
Reverted Appropriation (Note 8)	1,113,166	139
	<u>1,421,766</u>	<u>16,353</u>
Balance June 30, 1976	<u>\$ -0-</u>	<u>\$ -0-</u>

BOARD OF REGENTS OF HIGHER EDUCATION
STATEMENT OF EXPENDITURES BY OBJECT
FISCAL YEARS ENDED JUNE 30, 1975 AND 1976

Expenditure Object	Educational Supervision		Indian Teacher Training		Total Expenditures	
	Fiscal Year 1974-75	Fiscal Year 1975-76	Fiscal Year 1975-76	Fiscal Year 1974-75	Fiscal Year 1975-76	
Personal Services						
Other Compensation	\$ 3,456	\$ 4,027		\$ 3,456	\$ 4,027	
Total Personal Services	<u>3,456</u>	<u>4,027</u>		<u>3,456</u>	<u>4,027</u>	
Operating Expenses						
Contracted Services	6,058	69,687		6,058	69,687	
Supplies and Materials	80	392		80	392	
Communications	1,418	1,831		1,418	1,831	
Travel	6,967	6,902		6,967	6,902	
Rent		1,025			1,025	
Utilities	248	489		248	489	
Other Expenses	<u>545</u>	<u>461</u>		<u>545</u>	<u>461</u>	
Total Operating Expenses	<u>15,316</u>	<u>80,787</u>		<u>15,316</u>	<u>80,787</u>	
Grants						
From State Sources		\$240,000	\$240,000		240,000	
Total Expenditures	<u>\$18,772</u>	<u>\$84,814</u>	<u>\$240,000</u>	<u>\$18,772</u>	<u>\$324,814</u>	

PETER POTTER LOAN FUND

ASSETS

DECEMBER 31, 1976

	<u>Securities at Cost (Note 9)</u>	
<u>BONDS</u>		
\$1,000.00 American Telephone and Telegraph Company 8 3/4% 5-15-2000	\$ 1,000.00	
\$3,600.00 United States Steel Corporation 4% 1996	<u>3,600.00</u>	
Total Bonds		\$ 4,600.00
<u>STOCKS</u>		
18 sh American Telephone & Telegraph Company \$4.00 Pfd.	\$ 900.00	
372 sh American Telephone & Telegraph Company	26,644.50	
78 sh Anaconda Company	1,755.00	
165 sh Cannon Mills Company	2,937.00	
60 sh Chessie System, Inc.	2,370.00	
12 sh E. I. Dupont De Nemours & Company	3,180.00	
15 sh General Motors Corporation	851.62	
33 sh Indianapolis Power & Light Company	1,142.62	
99 sh Kennecott Copper Corporation	2,751.37	
39 sh National Biscuit Company	<u>2,379.00</u>	
Total Stocks		44,911.11
<u>TIME SAVINGS CERTIFICATES</u>		
\$3,534.22 Time Savings Certificate 5½% 90 days	3,534.22	
\$4,120.90 Time Savings Certificate 6% 1 year	4,120.90	
\$1,027.69 Time Savings Certificate 5½% 90 days	1,027.69	
\$4,126.78 Time Savings Certificate 5½% 90 days	4,126.78	
\$1,335.84 Time Savings Certificate 5½% 90 days	1,335.84	
\$4,401.26 Time Savings Certificate 5½% 90 days	4,401.26	
\$4,373.77 Time Savings Certificate 6% 1 year	4,373.77	
\$4,224.58 Time Savings Certificate 5½% 90 days	4,224.58	
\$5,745.79 Time Savings Certificate 6% 1 year	5,745.79	
\$3,500.00 Time Savings Certificate 5½% 90 days	<u>3,500.00</u>	
Total Time Savings Certificates		36,390.83
<u>Cash Balance - December 31, 1976</u>		3,260.14
<u>Total Student Loans</u> (Note 6)		<u>67,311.06</u>
TOTAL ASSETS		<u>\$156,473.14</u>

REPORT OF FIRST METALS BANK AND TRUST COMPANY
AGENT FOR PETER POTTER LOAN FUND
FUND FROM DECEMBER 31, 1974 TO AND INCLUDING DECEMBER 31, 1976

Balance - Cash on Hand as of December 31, 1974	\$ 5,873.80
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Payments Received During 1975:

Student Loan Payments	\$10,073.32	
Stock Dividend and Bond Interest Income	2,229.69	
Sale of Stock Warrants	11.94	
		12,314.95
Total Available		18,188.75

Disbursements During 1975:

Student Loans	2,650.00	
Insurance Premiums	1,481.97	
Purchase of Time Savings Certificates	12,000.00	
Bank Service Fee - Calendar Year 1974	716.26	
		16,848.23
Cash Balance - December 31, 1975		\$ 1,340.52

Payments Received During 1976:

Student Loan Payments	11,272.59	
Stock Dividend and Bond Interest Income	2,395.05	
Total Available		13,667.64
		15,008.16

Disbursements During 1976:

Student Loans	2,300.00	
Insurance Premium	1,174.52	
Bank Service Fee - Calendar Year 1975	1,131.45	
Purchase of Time Savings Certificates	7,142.05	
		11,748.02
Cash Balance - December 31, 1976		\$ 3,260.14

OFFICE OF COMMISSIONER OF HIGHER EDUCATION
and
BOARD OF REGENTS OF HIGHER EDUCATION

NOTES TO FINANCIAL STATEMENTS

Fiscal Years Ended June 30, 1975 and 1976

1. Summary of Significant Accounting Policies

The preceding financial statements were prepared from the Statewide Budgeting and Accounting System with the exception of the Statement of Changes in Equipment and the Peter Potter Loan Fund financial statements. The statements do not conform to the generally accepted accounting principles applicable to colleges and universities.

The Statewide Budgeting and Accounting System does not include a system of recording general fixed assets. The Statement of Changes in Equipment was prepared from agency records. Equipment purchased is recorded as an expenditure in the administration program at the time of purchase.

The Peter Potter Loan Fund is under the jurisdiction and control of the Board of Regents. Prior to September 1977 the fund was maintained by a bank in Butte, Montana. Currently, the fund is maintained by a Helena bank. The financial statements for the loan fund are provided by the trustee bank in accordance with the trust agreement. The assets of the loan fund are valued at cost. Loan fund records are maintained on a calendar year basis rather than a fiscal year.

The state of Montana utilizes the modified accrual basis of accounting. Modified accrual is defined as "that method of accounting in which expenditures are recorded on the basis of valid obligations and revenues are recorded when received in cash. At the end of a fiscal year, all

valid obligations against an appropriation are to be accrued as expenditures as provided by the law." (Montana Administrative Manual, 2-0240.40.)

2. Retirement Plan

Employees of the Commissioner of Higher Education are covered by the Public Employees' Retirement System, a contributory plan under which the state contributes 5.55 percent of the employee's gross wages and the employee contributes 6 percent of his gross wages to the plan.

The agency incurred pension costs of \$6,856 and \$13,391 during fiscal years 1974-75 and 1975-76, respectively. The state's policy is to fund accrued pension costs.

3. Vacation and Sick Pay

Liabilities incurred because of employees' unused vacation and sick pay are not recorded. The related expenditures are recorded when paid. Permanent employees are allowed to accumulate and carry over into a new calendar year a maximum of two times their annual accumulation of vacation. Upon termination, qualifying permanent employees having unused accumulated vacation and sick leave receive payment for vacation on a 100 percent basis and sick leave on a 25 percent basis. The amount of the liability associated with unused, accumulated vacation and sick leave at June 30, 1976, is maintained on an hourly basis rather than by dollar amount. The monetary liability is not calculated until an employee terminates.

4. Lease Commitments

During fiscal years 1974-75 and 1975-76, the Commissioner leased office space at a monthly rate of \$1,000. This lease expired in December

1976 when the agency moved into a new leased office building with monthly rental of \$5,032.50. The nine year lease agreement expires April 30, 1985. Projected lease payments amount to \$60,390 each year for the next nine years totaling \$543,510. This amount does not include future increases in utilities and personal property taxes that will be paid by the Office of the Commissioner of Higher Education. See page 1 of the accompanying report for additional information regarding this lease commitment.

5. Total Expenditures for Fiscal Year 1975-76

The amount shown as total expenditures on the Statement of Expenditures Compared with Appropriations for fiscal year 1975-76 for the Commissioner of Higher Education does not include pass through grants of \$56,463 from federal sources as presented in the Statement of Expenditures by Object on page 14 of this report. Moneys accounted for through the Federal and Private Grant Clearance Fund do not require an appropriation.

6. Peter Potter Loan Fund Delinquent Student Loan Payments

In August 1977 Commissioner of Higher Education officials determined that 43 percent of the 54 student loan accounts for the Peter Potter Loan Fund were delinquent in repaying the amounts owed. Officials believe that 3 percent of the students' loans are uncollectible. No reserve account for uncollectible loans is provided in the financial statements.

7. Expenditures by Program

The Higher Education Facilities and Indian College Master Plan programs were not in existence during fiscal year 1975-76.

8. Board of Regents' Discretionary Fund

The 1975 legislature appropriated \$4,000,000 to the Board of Regents for the university units for the biennium ended June 30, 1977. The board distributed \$2,818,234 to the university units during fiscal year 1975-76 and expended \$68,600 for operating costs leaving an unexpended balance of \$1,113,166. While this amount is shown as a reverted appropriation on the Statement of Changes in Fund Balances on page 18, these moneys were expended during fiscal year 1976-77 through approved budget amendments in accordance with House Bill 271.

9. Market Valuation of Securities

The market values of the stocks and bonds shown on page 20 are reported below at the closing prices on the exchanges where the securities were traded at December 31, 1976.

<u>Face Value</u>	<u>Bonds</u>	<u>Market Valuation</u>
\$1,000	American Telephone & Telegraph Company	\$ 1,073
\$3,600	United States Steel Corporation	2,682
	Total Market Value	<u>\$ 3,755</u>
<u>Shares</u>	<u>Stocks</u>	
18	American Telephone & Telegraph Company, Preferred	\$ 1,190
372	American Telephone & Telegraph Company, Common	23,529
78	Anaconda Company, Common	2,340
165	Cannon Mills Company, Common	2,743
60	Classic Systems, Inc., Common	2,490
12	E.I. DuPont DeNemours & Co., Common	1,611
15	General Motors Corp., Common	1,172
33	Indianapolis Power & Light Co., Common	821
99	Kennecott Copper Corp., Common	2,723
39	National Biscuit Co., Common	1,955
	Total Market Value	<u>\$40,574</u>

AGENCY REPLIES



STATE OF MONTANA
DEPARTMENT OF ADMINISTRATION
DIRECTOR'S OFFICE
MITCHELL BUILDING
HELENA, MONTANA 59601

THOMAS L. JUDGE, Governor

October 17, 1977

Mr. Morris L. Brusett
Legislative Auditor
State Capitol
Helena, Montana 59601

MONTANA LEGISLATIVE AUDITOR

Dear Mr. Brusett:

In the audit of the Office of the Commissioner of Higher Education, the following recommendation was directed to the Department of Administration for response.

Recommendation

We recommend that the Department of Administration review the need for legislation to allow the Facilities Planning Bureau, Architecture and Engineering Division, to adopt statewide standards for allocating leased office space.

The Department of Administration will be glad to work with the Legislature to determine the feasibility of such a procedure. The Department of Administration has advocated careful consideration of space requirements during the budgeting and appropriation process. Unfortunately, this has not always been done when additional responsibilities or program expansions are approved.

While space specifications may provide general guidelines for facilities planning, it should be recognized that they should not be used as precise limitations. Program requirements vary considerably and the long range plans for the program must be considered.

Sincerely,

Jack C. Crosser
Jack C. Crosser
Director

JCC:dr

cc: A & E Division



THE MONTANA UNIVERSITY SYSTEM

33 SOUTH LAST CHANCE GULCH

HELENA, MONTANA

59601

COMMISSIONER OF HIGHER EDUCATION

October 14, 1977

Mr. Morris Brusett
Legislative Auditor
State Capitol
Helena, MT 59601

Dear Morris:

I have reviewed your final audit report for the Office of the Commissioner of Higher Education and the Board of Regents for fiscal years 1975 and 1976. I am pleased that the financial statements have again received an unqualified opinion. As your audit report indicates, such an opinion is achieved only by supplementing the reports of the Statewide Budgeting and Accounting System with agency records.

Your report contains four recommendations with which I concur. I have the following comments:

Office Space

I have no problem accepting your recommendation that the Department of Administration have some sort of space standards or guidelines in contracting for leased offices. Your comparisons with other agencies, however, fail to mention many important aspects regarding space utilization in my office. For instance, 1) the office serves more than one agency; both the Board of Regents and the Board of Education hold regular meetings in the office; the meetings are usually attended by approximately 100 spectators and participants; the conference room is crowded during these meetings and to provide for any less space would have the effect of removing the "public" from public meetings; the Board of Personnel Appeals is also using the conference room since it is convenient to the Department of Labor and Industry. In addition, there are 23 inter-unit committees in the university system which normally meet in Helena and report directly to the Commissioner. Collective Bargaining sessions with non-academic employees generally take place in the office. Separate conference room or office space must be provided during these sessions so that privacy is provided both teams and other employees are not disrupted. The conference room is also open to other state agencies' use when our schedule permits. 2) In addition to the preceeding comments, the regular routines and required duties of the Commissioner and his staff generate substantial traffic from external agencies and the public. Often, several small meetings are held simultaneously in the office. There are four offices which will accommodate these sessions in addition to the conference room and library.

If comparisons are to be made or space standards are to be established by the Department of Administration, the criteria should take into consideration each agency's mission and its effect on the space required. While I recognize auditors are not space standard experts, I feel that the comparisons referenced in your report do not present a fair assessment of space requirements in this office.

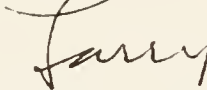
Mr. Brusett
October 14, 1977
Page Two

Peter Potter Loan Fund

The administrative charge for handling the Peter Potter Loan Fund has increased dramatically in recent years. Student loan trusts are time-consuming trusts to administer--this is especially true regarding receivable collection efforts. While the Regents have authorized a contract with a Helena bank for 1977-78, I will review our future position regarding the handling of the trust. The collections of the delinquent accounts are being carried out by my staff in cooperation with the Department of Revenue. Since we are already carrying a large portion of the administrative burden on collections, your recommendation may well be appropriate that the entire trust be administered by the state.

I appreciated the cooperation of your staff members in conducting the audit and accommodating the various work schedules of the staff in my office.

Sincerely,



Lawrence K. Pettit
Commissioner of Higher Education

LKP:mmm

